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Declining Aid Spending Harms U.S. Interests

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A report released April 25, 2000, by the Center on Budget and Policy Priorities (CBPP) documents a steady, decades-long decline in U.S. government spending on economic assistance for poor countries (website: *http://www.cbpp.org*). Under President Clinton's federal budget request for FY2001, which Congress is now reviewing, U.S. economic assistance expenditures would equal their lowest level, relative to the size of the U.S. economy, since the end of World War II. Aid spending as a share of the U.S. economy is half what it was in the 1980s and has been in decline since the 1960s. In a ranking of the share of national resources devoted to economic assistance for poor countries, the United States is last among the 21 donor countries of the Organisation for Economic Cooperation and Development (OECD). As a percentage of the economy, official spending on economic aid is now more than three times larger in the typical OECD country than in the United States. Aid is also approaching an historical low as a share of the federal budget.

The decline in economic development spending is harmful to U.S. international interests in a globalizing world. It is also at odds with the view, held by a majority of Americans, that the United States and other wealthy countries have a moral obligation to help the world's poorest people, 1.2 billion of whom live on less than a dollar a day. And, ironically, U.S. economic assistance spending has reached historically low levels at a time of growing consensus in the development policy community on how to make aid more effective.

U.S. Interests, Development Aid, and Globalization

During the 1980s, economic assistance spending averaged 0.20 percent of U.S. gross domestic product (GDP), about twice as high as the current figure. The sharp drop in aid during the 1990s can be partly attributed to the end of the Cold War, when the United States provided large amounts of economic support to strategically important developing countries. For example, the United States transferred large amounts of aid over many years to the government of Mobutu Sese Seko in Zaire, despite the fact that he was doing little to improve living standards in his country. With the end of the Cold War, the strategic value of economic aid declined, and so did aid.

But economic development assistance remains a critical instrument for the promotion of U.S. international interests in the post-Cold War world. Globalization confronts the United States with a wide array of new challenges to its prosperity and security. Aid can be a valuable tool for responding to many of these challenges; in some cases, when diplomacy or military force cannot be used, aid may be the only tool available.

Many issues about which Americans are increasingly concerned—financial instability, infectious dis-

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eases, environmental hazards, illegal immigration, drugs—are global in nature and can only be effectively addressed with the cooperation of developing countries. Poverty is a principal cause of some of these problems. In these cases, using aid to attack poverty may be our most effective response.

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But poverty also deprives developing countries of the capacities and resources they need to join us in addressing an even wider range of issues requiring multilateral attention. Poor countries, for example, have difficulty implementing highly technical international environmental or trade agreements. They are often unable to contribute effectively to regional peacekeeping and other security arrangements without substantial outside support. Their law enforcement agencies struggle to control flows of illegal narcotics or laundered money. By providing developing countries technical assistance in these and other areas, and by helping them strengthen their revenue base through growth, economic aid can help them shoulder a larger share of multilateral burdens.

Globalization also presents opportunities, primarily in the form of potential new markets for American products, and economic aid helps countries expand their participation in global commerce. Most of today's top importers of American agricultural products were once U.S. food aid recipients. During the 1990s, U.S. firms substantially increased their commercial ties with emerging market countries, all of which were recipients of U.S. aid. But U.S. trade with—and investment in—the world’s four dozen poorest countries remains minuscule. The development record makes clear that these countries will not be able to achieve sustained economic growth without competent governments and improved policies. U.S. aid programs aimed at strengthening governing and private sector institutions and at promoting economic reform can help these countries integrate themselves into the world economy.

The case for aid in the era of globalization goes beyond self-interest, however. Globalization is strengthening the appeal of moral arguments in favor of helping the world’s poorest people. Increased exposure to human suffering through electronic media has clearly played a role in this. Equally influential, though, has been a growing sense of responsibility for people in other countries whose lives Americans recognize are increasingly interconnected with their own.

Emerging Consensus on How to Make Aid More Effective

Aid’s record in development boasts some remarkable achievements. The Green Revolution—the scientific advances in seed production that vastly improved nutrition for tens of millions of poor people beginning in the 1960s—was funded largely by a collaborative effort of private foundations and aid donors. Policy reforms, training, and growth strategies financed by aid played a critical role in stimulating the development of countries as diverse as Bolivia, Ghana, Indonesia, Korea, Uganda, and Vietnam. A U.S. Agency for International Development (USAID) program developed an oral rehydration therapy that is credited with saving tens of millions of lives worldwide. Every year, U.S. assistance supports the immunization of more than 3 million people against lethal diseases. The combined efforts of aid donors and developing countries have helped increase life expectancy in those countries by one-third, eradicated smallpox worldwide, and reduced the number of chronically undernourished people by 50 percent in just the past 20 years. The U.S. population program has introduced more than 50 million couples to family planning. U.S. assistance has helped promote transitions to democracy in 36 nations over the past decade.

Despite these accomplishments, the record of aid has at times been disappointing. Several studies have been unable to establish consistent causal links between aid and conventional indicators of development, particularly economic growth. Yet a new consensus is emerging concerning how donors can make aid more effective, and donors, including USAID and multilateral aid agencies supported by the United States, are modifying their programs accordingly.

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For example, recent research suggests that a key reason for the poor performance of aid in some countries is that it was poorly targeted. Aid is helpful in the context of good overall policies, and it is wasted in poor policy environments. Donors are paying more attention to the quality of the policy environment in recipient countries, which often did not receive careful scrutiny during the Cold War.

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Donors are also looking more carefully at the *ways* in which aid is delivered, and the burdens it can impose on recipient countries. A government with weak institutions and limited policymaking capacities can easily be overwhelmed when as many as 40 donors are sponsoring aid programs in a country at the same time. Donors recognize that improving coordination among themselves is essential to the provision of productive aid.

Another aid delivery challenge relates to recipient country "ownership" of aid programs. Too often developing country officials and civil society representatives have not been involved in the design and implementation of aid projects and, as a result, have not been strongly motivated to make the project succeed. Ownership has been the decisive factor in the success—or lack thereof—of many development initiatives.

Finally, donors are beginning to focus more on the role of aid in supporting international public goods, like controlling the spread of infectious diseases. Some of these public goods can be provided by donors directly—like the creation of a vaccine for malaria—and thereby bypass the problem of bad policy environments in developing countries (although developing country governments need to be involved in the *delivery* of many of these goods, such as vaccines). Previous efforts to provide international public goods, such as the eradication of smallpox, qualify as some of the most effective aid programs in history.

Donors are now putting these lessons into practice. For example, some donors are testing sectorwide approaches, in which they provide budget support to an entire sector, such as education, rather than sponsor their own individual projects. This approach both capitalizes on a good policy environment—because it is used only in cases in which such an environment exists—and enables recipient countries to exercise greater control over aid resources and to incorporate them into an overall sectoral strategy. Another example of the updating of aid strategy is the recent effort of donors, embracing the concept of international public goods, to pool their resources to produce an HIV vaccine.

The U.S. Aid Program

The spending trends documented in the CBPP report are diminishing the impact of the U.S. aid program precisely at the time when new knowledge about aid effectiveness should be making it stronger. Programs have contracted in some areas; in others, aid policymakers have lacked adequate resources or flexibility to increase or change expenditures in response to new challenges and opportunities.

U.S. spending on agricultural development programs has been especially hard hit, declining from $900 million in 1990 to $300 million last year. Projects designed to promote private sector development have been under considerable budgetary pressure in recent years. Support for education and democracy programs has also declined.

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The constraints imposed by this downward trend in funding have been compounded by an upward trend during the 1990s in the share of aid that Congress requires to be spent on specific projects or recipients—the practice known as "earmarking." Earmarking sharply limits flexibility in aid programming. U.S. development assistance funds are now subject to more than 120 distinct, congressionally mandated spending directives, many of which can be linked to a single congressional sponsor. Some of these directives set dollar amount "floors" for specific overseas aid programs; others specify by name a particular U.S.-based institution that is to receive funds to carry out a project.

Many of these earmarks are well intentioned, but their cumulative impact is to weaken the U.S. aid program. Once funding earmarks have been satisfied, there is often little aid left to meet other needs or respond to contingencies. Earmarks and other mandates currently fence off large shares of U.S. economic aid for countries in the Middle East, Africa, and Latin America. Programs in South Asia, which generally do not enjoy such protection, have been vulnerable to overall budget pressure and contingency raids from other accounts. The United States therefore risks under-investing in the development of a region of considerable commercial and strategic importance.

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Congress could strengthen U.S. aid by boosting the development assistance budget and reducing micro-management of aid programs. But the United States also needs to do more to incorporate the lessons of aid effectiveness into its assistance programs. In particular, U.S. aid should be targeted more narrowly on countries with solid poverty-reduction policies in place. According to a 1999 OECD study, the United States is currently one of only four donors (the others are the International Monetary Fund, France, and Portugal) for which poverty reduction is not a formal, "overarching" goal of aid strategy.

Conclusion

This is the wrong time for U.S. aid spending to decline. Aid can promote U.S. international interests as effectively today as it did during the Cold War, though in different ways. Indeed, as a consequence of globalization, the challenges for which aid is likely to be the most effective (and sometimes the only) policy response have grown in number and importance over the past decade. Knowledge about what makes aid effective and how to target it better is also reshaping the U.S. aid program and the programs of multilateral institutions the United States supports.

Development assistance spending accounts for just three-fifths of one percent of the federal budget, so reversing the downward spending trend would not be costly. An expanded economic aid program would be a powerful tool of U.S. foreign policy in an age of globalization and a wise investment in a more prosperous and stable world. ■

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